



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. November 30, 2004. The following members were present:

Jody B. Olson  
Dennis Johnson  
J. Kirk Sullivan  
Clifford T. Hayes

Trustee Pamela Ahrens was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Financial Officer James Monroe and Administrative Assistant Rose Marie Sawicki were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon  
Bruce Reeder  
Drew Black  
Brian McGrath  
Casey Maslonka  
Dennis Fitzpatrick  
Parke Blundon  
Jim Coleman  
Charlie Brown  
Jim Shakelford  
Matt Haertzen  
Brent Nye

Mountain Pacific Investment Advisors  
Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
PERC – Retired Teachers  
REAI  
IEA  
Endowment Fund  
Boise Schools

Dona VanTrease  
Karen Steffen  
Chris Growney  
Doug Bates  
Mike Boren  
Juan Benito  
Mario Gianinni  
Paul Yett  
Michael O'Leary  
Janet Becker-Wold

IPEA  
Milliman  
Clearwater Advisors  
Clearwater Advisors  
Clearwater Advisors  
Brandes  
Hamilton Lane  
Hamilton Lane  
Callan Associates  
Callan Associates

### MINUTES

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Hayes, the Board unanimously approved the minutes of the October 26, 2004 regular meeting of the Retirement Board as submitted.

### PORTFOLIO

Chief Investment Officer Robert Maynard and consultant Michael O'Leary reviewed the search process for Fixed Income managers. Trustee Sullivan commented on his involvement in the process and was complimentary of the work performed by Callan.

Quarterly Investment Report: Mr. O'Leary had previously provided reports to the Board detailing the performance of the DB and DC plans. He reviewed these reports which were positive. In regard to the DC plan, the Dreyfus and T. Rowe Price funds had a good quarter and appear to be back on track after a period of poor performance.

In review of the DB plan, Mr. O'Leary highlighted management developments since the last meeting, including the expected buyout of Delaware with the name change to Mondrian and the Lend Lease Rosen employee buyout with a name change to Adelante. Most recently, ING sold Barings to Mass Mutual; Mr. Maynard has talked with them and feels comfortable at this point that the organization of the portfolio team will remain intact. We will keep in close contact with them.

Chairman Olson complimented Mr. Maynard and the entire investment team for a great performance so far this year.

Monthly Portfolio Update: Mr. Maynard began his investment presentation by noting that the last few months have provided a half-billion dollars in earnings for the fiscal year. Both U.S. and International equities have driven the good performance of the month. He believes most of the post election gain is over and that going forward, markets will move sideways. He's not expecting returns in the coming months to gain the 4%-5% like this month. Additional returns have been the result of four things: Global managers, REIT exposure, Emerging Markets and TIPS. Mr. Maynard

finds no logical reason for all four of these areas to be doing so well at the same time and sees no reason for them to continue. Adding active managers and private equity may start to provide new gains as some of the other market drivers start to lag.

Chairman Olson said that with \$2 billion in International markets, the Trustees need to become better educated in that area. He thanked Trustee Johnson for taking time to go to China. Mr. Johnson commented that it was a very informative trip and he got a very encouraging view, particularly of China.

Mr. Maynard's monthly investment report included the comment that the fixed income search is proceeding on schedule with the current expectation that three managers (one TIPS manager and two general fixed income managers) will be added by the end of the calendar year or soon thereafter. The November 28, 2004 report showed fiscal year-to-date returns of 6.5% with a 4.0% return for the month-to-date. Current value of the fund was listed as \$8,252,820,268.

Private Equity: Mario Gianinni's slide presentation illustrated the strategic direction of the program. The program is designed to re-invest proceeds with a limited number of existing relationships so as not to over diversify. He expects to increase the average commitment amount to proven managers going forward. Mr. Gianinni may seek out additional partnerships for more international exposure. Hwy 12 and Frazier Technology have an Idaho presence.

Trustee Johnson asked about a Wall Street Journal article regarding borrowing by managers in the portfolio. Mr. Gianinni said highly leveraged strategies and the monitoring the level of leverage on the managers makes that unattractive to us.

Due to the immaturity of many of the underlying private equity funds, the J-curve effect continues to weigh on overall performance. Mr. Maynard said we have only seen the front of the J-curve and in about a year we should see positive numbers as the funds mature. As the underlying funds move toward the end of their investment periods and begin to seek exits, distribution pace will increase and begin to outpace contributions.

Investment Manager Comments: Before a short break, the Chairman invited managers who were present to comment on the markets and the economy.

## EXECUTIVE DIRECTOR

FRF Final Actuarial Report: Milliman Actuary Karen Steffen distributed copies of the final FRF actuarial report. The FRF system is a completely separate system from the PERSI Base or Choice plan, with a separate pool of funds. The FRF was not merged into PERSI like the Idaho Falls Police. It is a separate system and even though investments are pooled, we handle the accounting separately. People under the old system are entitled to the level

of benefits that were in place at the time of the combination. Underneath that level is the PERSI base plan structure. There are 42 active FRF members and 582 FRF retirees. Anyone hired after 1980 becomes a PERSI firefighter and receives a PERSI base plan retirement benefit instead of an FRF plan benefit. The contribution is on the salaries of firemen employed by FRF employers, regardless of whether they are entitled to benefits under the older FRF plan. The FRF annual retiree Cola is also unique in that it is tied to salary of the active members.

Responding to a question from the Chair, Actuary Karen Steffen said that because police officers and firefighters in the PERSI base plan have different benefits than general members, we collect different rates from them. However, those contributions are accounted for along with general member contributions in the PERSI base plan; contributions under the FRF plan are accounted for separately.

Executive Director Alan Winkle had provided a summary memo for the Trustees which noted that there may be a decrease in the fire insurance premium tax as a result of proposed legislation. This will decrease the amount of revenue to fund the FRF. Over the 11-year funding period, the decrease will result in a loss of 1% of compensation. By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously approved the actuarial valuation report dated July 1, 2004 as submitted.

Sick Leave Valuation: Mr. Winkle had provided a summary report to the Trustees which said that because of the advances provided by the Galena system, this is the first time PERSI could supply actual sick leave data from the school employers to our actuary. In anticipation of the improved data, the regularly scheduled sick leave study had been delayed for one year so the actuary could derive a more accurate liability number. The state program has provided actual data to PERSI for several years because it was much easier to obtain.

The actuarial assumptions upon which this study is based have been extensively reviewed. In addition to gathering actual sick leave data, PERSI assembled a data base of the accrual and maximum limit practices of the school employers. Because the practices are different among the school employers, different liabilities are accrued. Steps must be taken to ensure that equivalent contributions are collected for equivalent benefits in this program. Because of the newly obtained detailed data, staff and the actuary are spending additional time to make sure all recommended assumptions are correct.

There was discussion of the difference between how state employees and school employees may use their sick leave balances upon retirement. The number of accrued hours reported under the new Galena method shows a marked increase in the potential future liability of the school fund which could indicate a need for an increased sick leave contribution rate. Because we are working with just one year's actual detailed data, Actuary Karen

Steffen recommended taking a “middle-of-the-road” approach in determining necessary rate increases, recognizing that the costs are running higher than previously assumed and waiting for more data. Without a rate increase, the unfunded accrued liability will be amortized over 19.5 years where the policy has been closer to 12.2 or 11.5 years.

Retiree Charlie Brown noted that he retired with over 1800 sick-leave hours. He asked where the PERSI contributions for the sick leave hours that members earn, yet cannot use toward medical insurance, have gone. Chairman Olson asked staff to check into this issue. Trustee Sullivan is interested in the answer to this issue also.

Other Business: Trustee Johnson was out of the country and missed the last Board meeting. Chairman asked for his views on the contribution rate increases and the COLA and retro-COLA. Mr. Johnson said he reviewed the October 23, 2004 minutes of the Board meeting and is supportive of the actions. There is nothing that he is aware of that will cause him to change the plan for the scheduled rate increases. He said this is a long-term plan to make sure the PERSI base plan is appropriately funded. Trustee Sullivan added his support saying we are here for the long-term, with 100,000 people depending on PERSI for stability. Chairman Olson said Mr. Winkle should express to employer members that PERSI is a “tanker, not a speedboat” and we tend to make these decisions deliberatively with a long-term perspective, not abruptly and based on conditions only at the moment.

Status Report: Mr. Winkle reviewed his report dated November 22, 2004, which had previously been provided to the Trustees. The Request for Proposal for the technology phase of the Business Process Review project is in the bidding stage. Several orientation sessions with staff have been held to describe the opportunities in the new organizational structure.

Mr. Winkle has met with Senator Cameron, Senator Andreason, Representative Bell and Representative Schaefer in preparation for the coming legislative session. They are all very complimentary of the job being done by the Board and staff and acknowledge the importance of keeping the system solid. There were questions, particularly with the JFAC Co-Chairs, regarding continuing the contribution rate increases given the great investment returns.

Mr. Winkle also provided disclosure on his personal business involvements to the Board.

## FISCAL:

Administrative and Portfolio Reports: Financial Officer James Monroe reviewed details of the fiscal year-to-date Administrative and Portfolio budget reports that had previously been furnished to the Board. Investment management expense makes up the largest portion of the Portfolio budget and therefore has the biggest impact on the total budget. It is based, for budgeting purposes, on an 8% assumed rate of asset growth. Significant

variances from the 8% assumed rate will have an impact on budget-to-actual comparisons. Trustee Sullivan asked how much we paid to Foster Pepper during this time period. Mr. Monroe said we paid \$17,000 regarding investment issues and \$13,000 regarding private equity. CIO Robert Maynard said Foster Pepper reviews every legal investment document. We had two larger ones this month, Koll Investment and a secondary fund for Hamilton Lane. Mr. Maynard authorized or requested both of these detailed reviews.

Mr. Monroe said there are four vacant positions that we plan to fill as we work through the Business Process Review. All administrative expenses and operating expenses were reported as normal. In February and March we expect to see increases in the operating expenses as the BPR project expands.

The complete PERSI audit report for fiscal year 2004 and the letter of Comments and Recommendations and PERSI's response to those comments was provided to the Board.

Mr. Monroe said PERSI is awarding one-time bonuses in December under the FY05 Compensation Plan based on extraordinary performance and the availability of one-time salary savings. The bonuses range in amounts up to \$700. Responding to a question from the Chair, Mr. Winkle said he had talked with DFM about awarding bonuses. PERSI considers bonus awards at this time every year, although the amount is not as much as in former years. The maximum bonus a state employee may receive in a fiscal year is \$1000.

Quarterly Financial Report: Senior Accountant Rhonda Yadon had previously furnished copies of the financial statements for the quarter ended September 30, 2004 and 2003 to the Board. She reviewed this report, discussing how the 2004/2003 comparative totals for accrued liabilities relate to late invoices from managers and other payment timing issues.

GFOA Excellence in Financial Reporting Award: Chairman Olson awarded the plaque to Ms. Yadon and Mr. Monroe saying this is the 13<sup>th</sup> year PERSI has received this honor. Mr. Monroe joined PERSI in 1997 and with his team continue to keep PERSI at the accounting forefront. Mr. Monroe said Ms. Yadon deserves credit for her work towards this award. Our auditors are tough and we want no questionable transactions on our records.

#### FUTURE MEETINGS:

The meeting formerly set for December 14, 2004 has been cancelled. By motion duly made by Trustee Johnson, seconded by Trustee Hayes and unanimously approved by members present, the Board set the dates for regular meetings of the Board in 2005:

Tuesday, January 25, 2005 8:30 a.m., Boise - PERSI office

Tuesday, February 22, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, March 29, 2005, 8:30 a.m., Boise - PERSI office  
**Thursday**, April 21, 2005, 8:30 a.m., Boise - PERSI office  
**Thursday**, May 26, 2005, 8:30 a.m., Boise - PERSI office  
Tuesday, June 28, 2005, 9:30 a.m., Pocatello, Idaho  
**Thursday**, July 21, 2005, 8:30 a.m., Boise - PERSI office  
Tuesday, August 23, 2005, 8:30 a.m., Boise - PERSI office  
**Friday**, September 23, 2005, 8:30 a.m., Boise - PERSI office  
Tuesday, October 25, 2005, 8:30 a.m., Boise - PERSI office  
Monday, December 5, 2005, 8:30 a.m. Boise - PERSI office  
No meeting is planned for November 2005.

Adjournment: Mr. Winkle said The Public Employees Retirement Coalition (PERC) had sent a letter supporting the contribution rate increase for 2005. Copies of the letter were distributed to Trustees. Chairman Olson said he appreciates PERC's work. Mr. Olson also encouraged CIO Maynard to continue to share his investment expertise with the BSU Foundation, the Albertson College Board and other local entities. The meeting adjourned at 11:05 a.m.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director